



Friday, July 21, 2006

Budget Packet

- Failed Republican policies run up one of the worst budget deficits in history, America is now \$8.4 trillion in the red
 - Turned projected \$5.6 trillion 10-year surplus into a \$3 trillion deficit
 - Bush Administration won't get the deficit under control
 - Has now posted the four worst deficits in the history of the country
- Republicans offer no plan, process, or prospect for balancing long-term budget
 - Debt to future generations soaring, doubling to \$11 trillion by 2011
 - Interest rates rising
 - "The long-term outlook is such a deep well of sorrow that I can't get much happiness out of this year." – Douglas Holtz-Eakin, a former director of the Congressional Budget Office and a former White House economist under President Bush [New York Times, 7/9/06]
- Foreign borrowing record high under Bush Administration
 - Bush has borrowed more from foreign nations than previous 42 U.S. presidents combined
 - 75 percent of the new public debt borrowed from foreign investors
 - China has increased U.S. holdings from \$62 billion to \$323 billion
 - Leaves our country's financial future in the hands of foreign governments and mortgages our children's future to foreign governments.
- Despite talk of bipartisanship, Republican budget threatens retirement security
 - Raids Social Security Trust Fund
 - GOP budget still includes risky privatization plan
- Republican policies take economy in the wrong direction
 - Support giveaways to oil companies
 - Support outsourcing American jobs
 - Support privatizing Social Security
 - Oppose minimum wage increase
 - Oppose relief for consumers paying \$3.00 a gallon for gas
 - Worst record of job creation since the Great Depression
 - Fail middle-class families
- Democrats want to take America in a New Direction to restore budget discipline of the 1990s, with pay as you go budgeting that helped eliminate deficits and spur economic growth

Table of Contents

- Budget Mid-Session Review: Republican Record Deficits & Long Term Debt
- Republicans' Fiscal Irresponsibility Makes History: Borrow More from Foreign Nations than All Past Presidents Combined
- Reviews are In: Record Deficits are Nothing to Crow About
- Rhetoric v. Reality on Bush Tax Cuts are Working
- Charts on Budget and Foreign Borrowing by House Budget Committee Democratic staff , Senate Budget Committee Democrats Democratic staff, and Ways and Means Democratic staff

Budget Mid-Session Review: Republican Record Deficits & Long-Term Debt

“Future generations shouldn’t be forced to pay back money that we have borrowed. We owe this kind of responsibility to our children and grandchildren.” -- President George W. Bush, Radio Address, 3/3/01

“On Mr. Bush's watch, triple-digit budget surpluses have turned into annual triple-digit budget deficits. There's no information in the mid Session report to alter that utterly dispiriting fact.” [New York Times editorial, 7/11/06]

Republicans have run up four years of out-of-control, record deficits. This week, President Bush and Washington Republicans congratulated themselves for running a projected 2006 deficit, of \$296 billion – which would be the fourth largest deficit in history, and larger than any deficit before President Bush took office. Meanwhile, our nation’s debt continues to rise dramatically, debt to foreigners already has more than doubled, and the President’s plan for our long-term fiscal problems will make matters even worse.

President Bush and the Republicans have presided over the worst fiscal reversal in history. When President Bush was inaugurated in January 2001, there was a projected 10-year surplus of \$5.6 trillion thanks to President Clinton’s policies. After five years of a Republican President and a Republican Congress, the projected deficit for the same time period has reached nearly \$3 trillion. That is a fiscal reversal of \$8.5 trillion in just five years -- the largest fiscal turnaround in our Nation’s history.

Washington Republicans are doubling the national debt to more than \$11 trillion by the end of the decade. At the end of President Bush’s first year in office, the national debt was \$5.8 trillion. Yet for four years in a row, Congress has increased the debt limit, resulting in a \$3 trillion, or 52 percent, increase in the national debt. The national debt is \$8.5 trillion, or more than \$28,000 per person, and is projected to explode to \$11.1 trillion by 2011.

Despite talk of bipartisanship, Republican budget threatens retirement security. The Bush Republicans plan raids the Social Security surplus – spending every penny of the \$2.5 trillion over 10 years on tax cuts and other items. Further, the President’s budget still includes a risky privatization plan that would slash Social Security benefits for middle-class Americans and explode the debt.

Interest on the national debt has become one of the fastest growing categories of spending in the budget. The growing burden of debt created under Republican policies means that the federal government is wasting resources paying interest on the debt, rather than using these resources to provide critical services and make important investments. In 2005, net interest payments on the debt consumed \$184 billion, more than triple all appropriations for education, and more than six times the amount spent on either the environment or veterans’ health care.

Middle-class families pay the price for Republican debt and deficits – through higher interest rates and lower living standards. Republican debt already has contributed to rising interest rates that reduce economic growth: “There is no question that as deficits go up, contrary to what some have said, it does affect long-term interest rates. It does have a negative impact on the economy...” [Alan Greenspan, Testimony in the Senate Banking Committee, 2003] The Federal Reserve raised interest rates in June for the 17th straight increase since mid-2004 -- to the highest level in five years. Rising interest rates are pinching the pocketbooks of families with credit card debt, car loans, student loans, and adjustable rate mortgages. “By holding down the growth of national saving and real capital accumulation, the prospective increase in the budget deficit will place at risk future living standards of our country.” [Federal Reserve Chairman Ben Bernanke, hearing before the Committee on Banking, Housing, and Urban Affairs, 2/16/06]

BUSH REPUBLICANS' FISCAL IRRESPONSIBILITY MAKES HISTORY: ***Borrow More from Foreign Nations than All Past Presidents Combined***

President Bush and Congressional Republican have taken our country in the wrong direction – with deficits and debt as far as the eye can see. One of the consequences of this recklessness is that foreign countries, including China and Japan, are financing a growing share of our debt, leaving our country's financial future in their hands.

Republicans' reckless spending has led to an historic level of borrowing from foreign investors. In December 2000, foreign investors held just over \$1 trillion of U.S. public debt; by July 2006, that amount had doubled to nearly \$2.1 trillion. [CRS, 11/28/05; Concord Coalition, 7/6/06] This places the financial and economic future of America in the hands of foreigners. If foreign investors dump U.S. securities, this could be a disaster for our economy – with the value of the American dollar going down and interest rates for consumers going up.

President Bush has borrowed more money from foreign nations than previous 42 U.S. presidents combined. Throughout the first 211 years (1789-2000) of our nation's history, 42 U.S. Presidents borrowed a combined \$1.02 trillion from foreign governments and foreign financial institutions. However, in the last five years alone, President Bush has borrowed a staggering \$1.03 trillion from foreign government and banks– more than the total from all the previous 42 Presidents. [Department of the Treasury]

Three-quarters of the public debt added under the Bush Administration was borrowed from foreign investors. Currently more than 43 percent of our nation's total public debt is owned by foreign creditors. And if we continue on this pace – that percentage will grow to more than half by 2011, with foreign investors owning an estimated \$3.8 trillion of American debt. [EPI, 3/8/06]

China has increased financing for U.S. debt more than five-fold. Japan, China, United Kingdom and oil exporting countries lead the list of current foreign holders of U.S. public debt with holdings totaling more than \$1.2 trillion. Since January 2001, investors in these countries have nearly tripled their financing of U.S. debt. China alone has increased its holding of U.S. securities from \$62 billion to \$323 billion – an increase of nearly \$262 billion. Japanese investors have increased holdings a whopping \$326.9 billion. [Treasury Dept., <http://www.treas.gov/tic/mfhhis01.txt>]

The United States is the world's largest borrower. America used to be the world's most generous lender, but now our country is borrowing 65 percent of the available financial resources across the globe. [Mother Jones, 6/5/06; IMF]

American families get nothing to show for interest payments on foreign-held debt sending billions out of U.S. economy. The growing burden of debt created under Republican policies means that the federal government is wasting resources paying interest on the debt to foreigners, rather than using these resources to provide critical services and make important investments. For example, last year, local, state and federal government interest payments to foreign investors totaled \$114 billion – more than President Bush's FY 2007 education budget. Interest payments to foreign lenders are projected to increase dramatically, reaching \$181 billion by 2011 – more than twice what the President proposes to spend on education in that year. [EPI, 3/06 and 6/06]

Democrats want to take America in a New Direction to restore budget discipline of the 1990s, with budgets that pay as you go. This is critical to eliminate deficits and spur economic growth at a time when middle-class families are struggling to get by in the face of rising energy, health care and education costs.

The Midsession Reviews Are In: Bush Republican Record Deficits & Long-Term Debt Are Nothing to Crow About

"Our problem is our large long-term deficit, and the sooner we deal with that the better," said Comptroller General David M. Walker. Walker, who is head of Congress' Government Accountability Office, warned of "a false sense of security. We're in much worse shape fiscally today than we were a few years ago." [Los Angeles Times, 7/11/2006]

"The long-term outlook is such a deep well of sorrow that I can't get much happiness out of this year."
– Douglas Holtz-Eakin, a former director of the Congressional Budget Office and a former White House economist under President Bush [New York Times, 7/9/06]

"This deficit is not a success," said Collender, a former Capitol Hill budget analyst who is now managing director of Qorvis Communications in Washington. "It's a drop from their previous estimate that we all thought was unrealistically high to begin with. This is pure spin." [Bloomberg, 7/11/06]

"It's not time to celebrate. It's a wonderful thing that we're going to have a smaller deficit than we thought. On the other hand, we're still going to have a substantial, \$300 billion deficit," Bill Frenzel, a former Republican congressman and the co-chairman of the bipartisan Committee for a Responsible Federal Budget, said on Monday. [Market Watch, 7/11/06]

"... it's still the case that there's a big deficit and that fiscal discipline has been lacking," said Kevin Hassett, director of economic policy studies at the conservative American Enterprise Institute. [Wall Street Journal, 7/12/06]

"Forgive us if we don't break out the party hats. It is hard to get excited about an abysmally large deficit in the range of \$300 billion that is somewhat less gargantuan than earlier predicted...this habitual mid-year crowing masks the seriousness of the nation's bleak fiscal outlook...A \$296 billion deficit this year would be only slightly better than last year's deficit, which came in at \$318 billion. It would, of course, be much worse than the surpluses Bush inherited. And its true size is masked by the \$172 billion Social Security surplus. Take that away, and the deficit is \$468 billion, or more than \$4,000 per household. [USA Today editorial 7/12/06]

"Politicians should keep the fiscal champagne bottles corked. The real news here is that even into our fifth year of economic recovery and with two years of very strong revenue growth, we will still have a deficit this year of almost \$300 billion (2.3 percent of GDP). Interest on the debt has become the fastest growing category of federal spending. Moreover, the deficit for next year is projected to go up and the Administration's projections beyond 2007 do not include the likely costs of important policies such as the war in Iraq and Alternative Minimum Tax (AMT) relief." said Robert L. Bixby, Executive Director of The Concord Coalition, 7/12/06

"Mr. Bush didn't make a false choice between cutting taxes and dealing with the deficit. He just made the wrong one. Yesterday's news doesn't erase that -- nor the additional \$2.2 trillion in debt that the Bush administration, by its own calculations, will have piled up on its watch." – Washington Post editorial, 7/12/06

GOP Rhetoric: Bush Tax Cuts are Good for the Economy

REALITY: Democrats stand for strong fiscal responsibility and for tax cuts that spur economic growth, but the Bush tax cuts have weakened the economy by adding trillions of dollars of debt.

- Despite the Administration's hype, the figures show that the benefits of the Bush tax cuts aren't improving working families' wages and they aren't spurring needed corporate investment. The mid-session review predicts that Americans will earn approximately \$71 billion less this year in wages and salaries than they predicted in February. The mid-session review demonstrates that corporate investment in plant and equipment will be less than what the Bush Administration projected just six months ago.
- A growing number of economists, most prominently from the Congressional Budget Office, point out that upsurges in revenue are also the result of growing income inequality in the United States, an observation that is consistent with mounting evidence of a rapidly widening gap between the rich and everyone else. [New York Times editorial, 7/11/06]
- President Bush has the worst jobs record of any President since the Great Depression, with 2.9 million manufacturing jobs lost and on average only 42,000 jobs per month created. Real family income has dropped every year of the Bush presidency.
- The Administration's plan for tax cuts reduces revenues by \$1.9 trillion over 10 years (2007-2016). When the cost of a ten-year repair of the AMT is factored in, the Administration's tax policies worsen the deficit by \$2.7 trillion, before adding the extra cost of interest payments. [House Budget Committee Democratic Staff, 3/22/06]
- Over the long-term, the surging budget deficits created by the President's tax cuts would raise interest rates, lower savings rates, and discourage job creation, according to Joel Prakken of Macroeconomic Advisers LLC, which developed the computer model at the White House. [WP 4/29/03; Macroeconomic Advisers January 10, 2003]
- The deficits that result from unpaid-for tax cuts constitute a drag on the economy because they lower national savings, making less money available for investments that fuel economic growth the economy. Brookings Institution economists concluded that the 2001 and 2003 tax cuts were "likely to reduce, not increase, national income in the long term" because of their effect in swelling the deficit. [Williams Gale and Peter Orszag, "Bush Administration Tax Policy: Effects on Long-Term Growth," Tax Notes, October 18, 2004.]
- Business investment is lower than it was in 2000 (as a percentage of the economy), and an increasing amount of that investment is being financed by foreign borrowing rather than our own national savings.

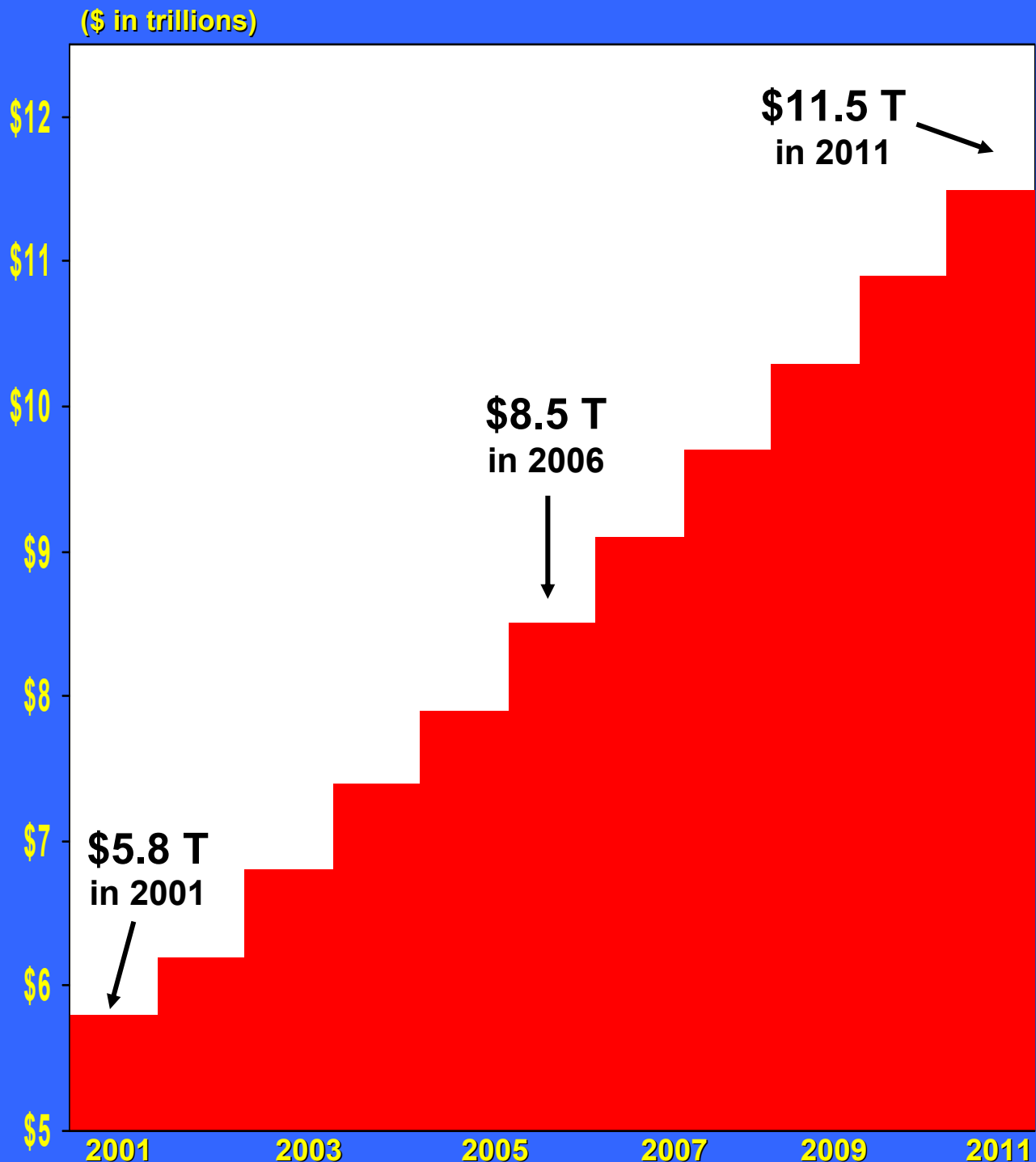
Another Record Deficit

The Four Largest Deficits in History

<u>Rank</u>	<u>Year</u>	<u>Deficit</u>
1 st	2004	-\$413 Billion
2 nd	2003	-\$378 Billion
3 rd	2005	-\$318 Billion
4 th	2006	-\$296 Billion

Building a Wall of Debt

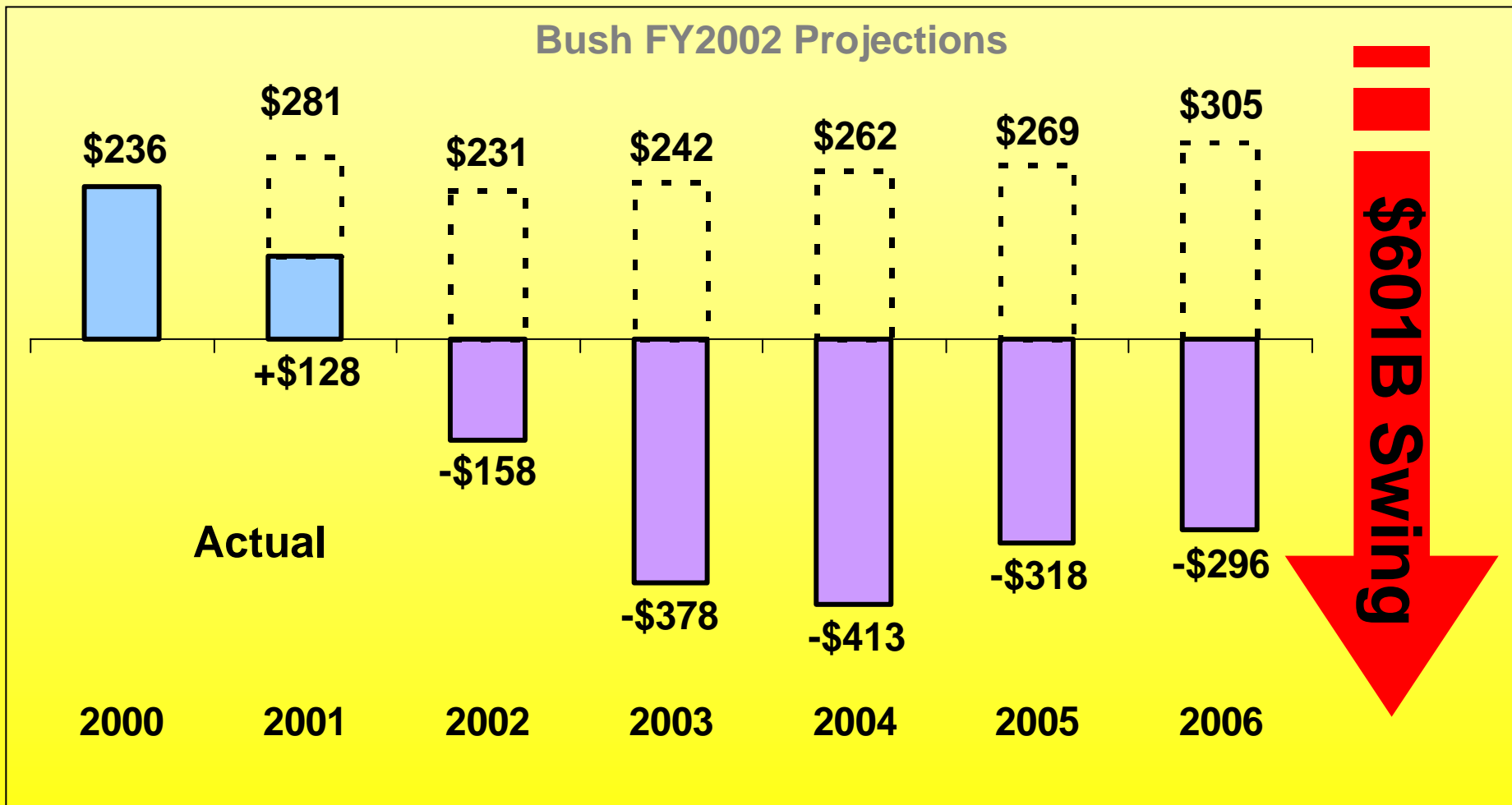
Gross Federal Debt Soars



Source: OMB and SBC Democratic staff
Note: 2006-2011 estimates from OMB Mid-Session
Review with AMT reform and ongoing war costs

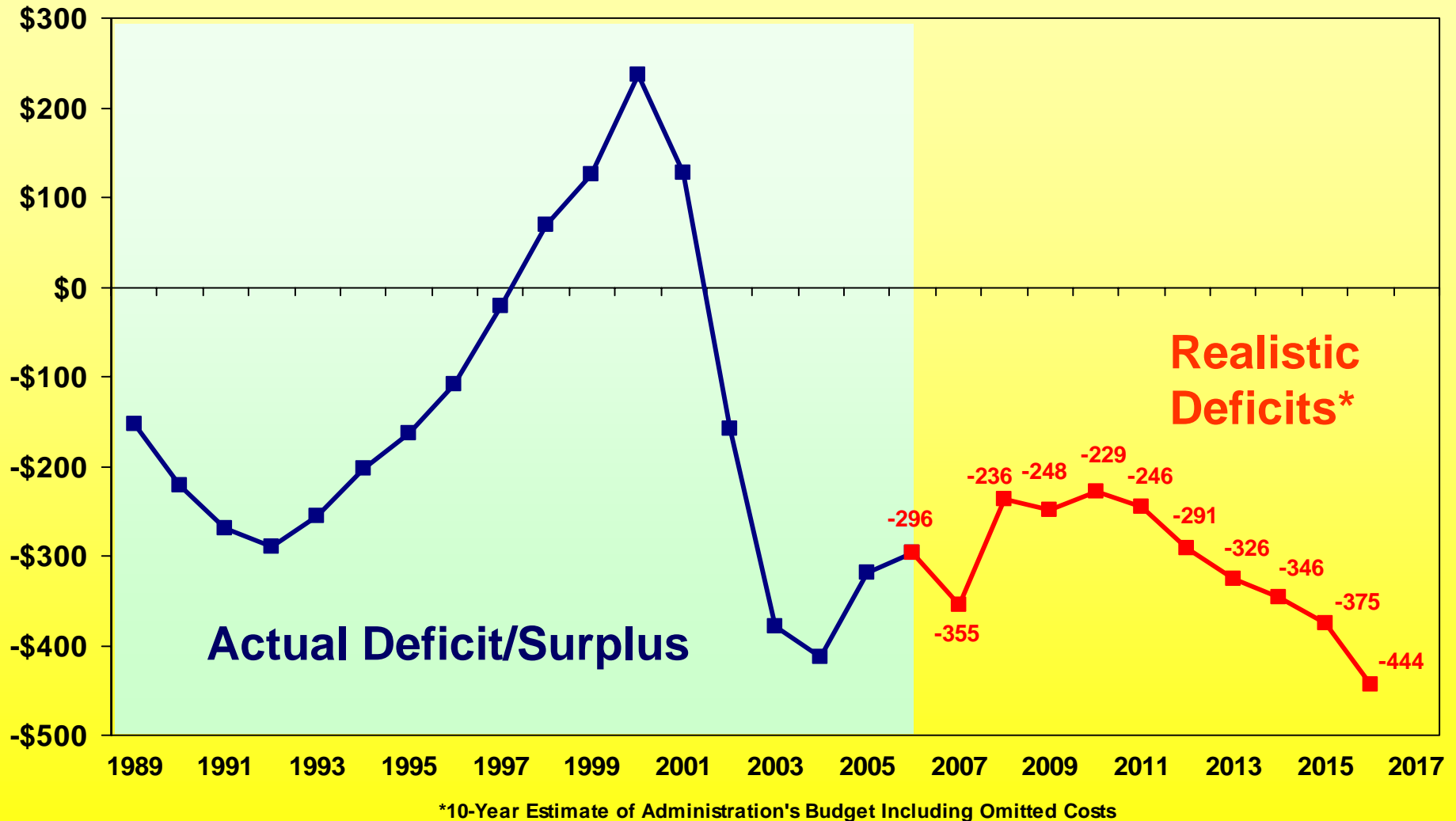
Projected Surpluses Become Huge Deficits

Actual and Predicted Budget Surpluses and Deficits in Billions



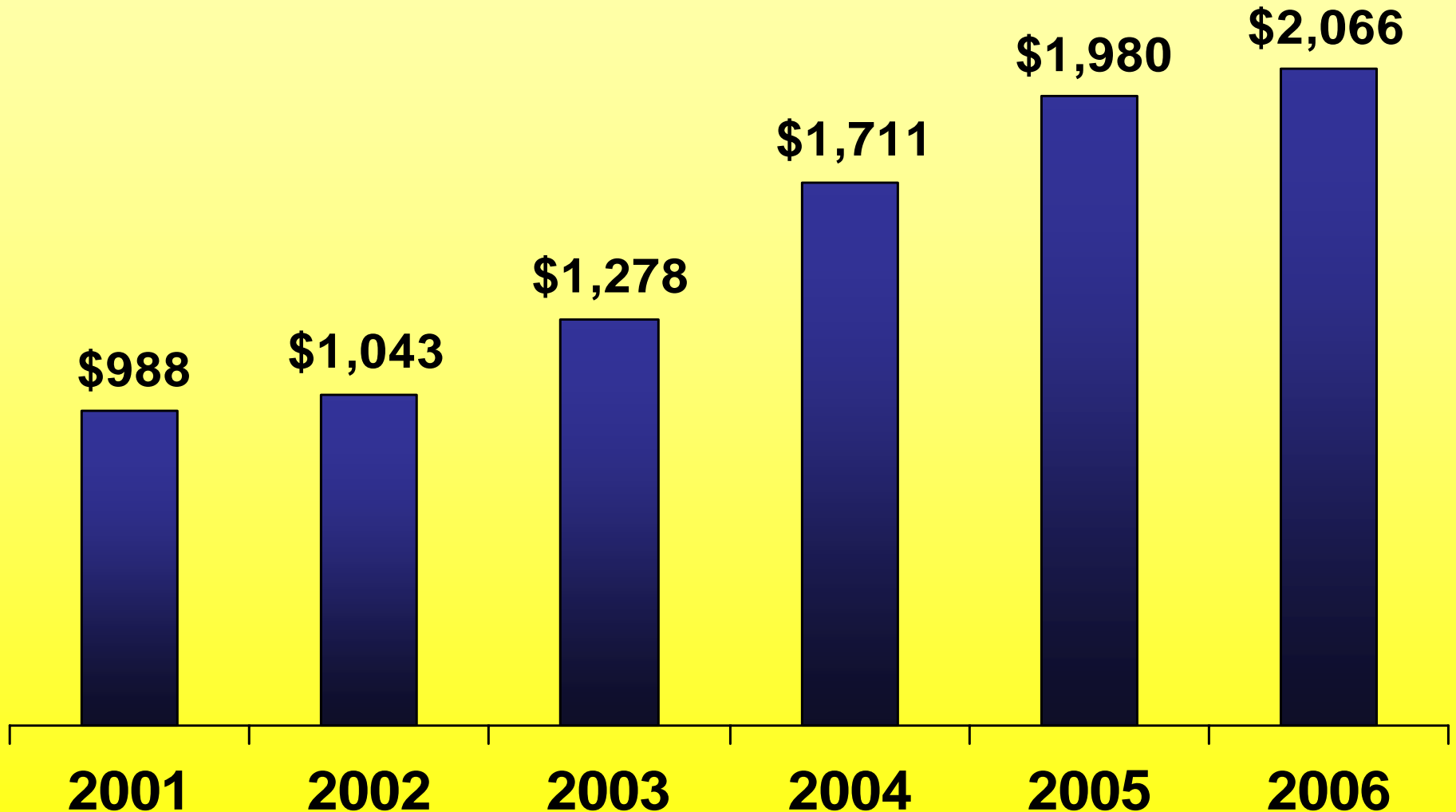
Realistic Estimate Shows Bleak Deficit Outlook

Deficits in Billions of Dollars



Amount of Foreign-Held Debt More Than Doubles Under Bush Administration

Billions of Nominal Dollars



Annual totals calculated in April of each year

Prepared by the Democratic Staff of the House Budget Committee

Source: U.S. Treasury International Capital System

7/11/06

President Bush More than Doubles Foreign-Held Debt in 5 Years

It Took 42 Presidents 224 Years to Build Up Same Level of Foreign-Held Debt



224 Years
(1776-2000)

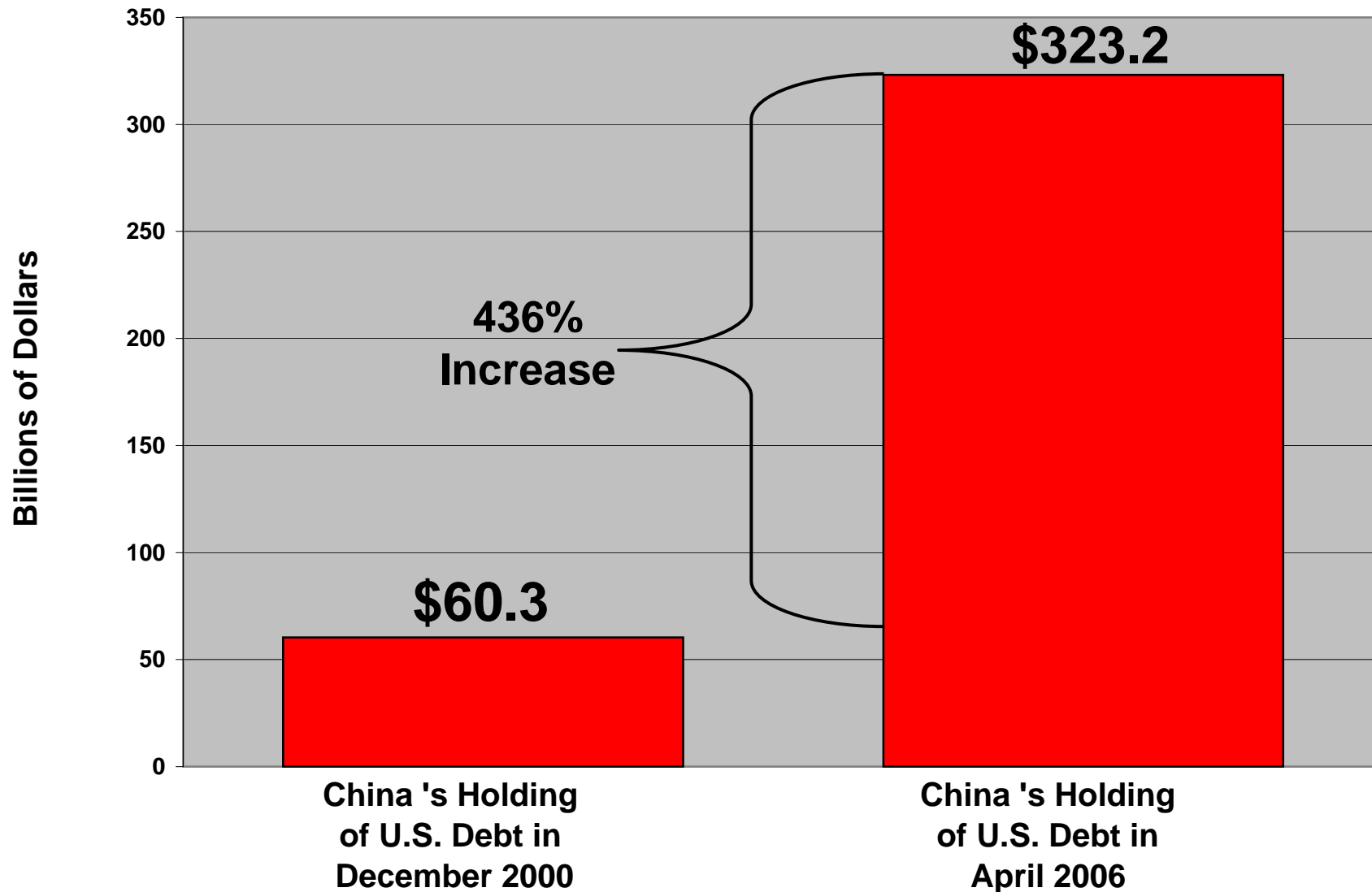


\$1.06 T

5 Years
(2001-2006)

China's Holding of U.S. Debt

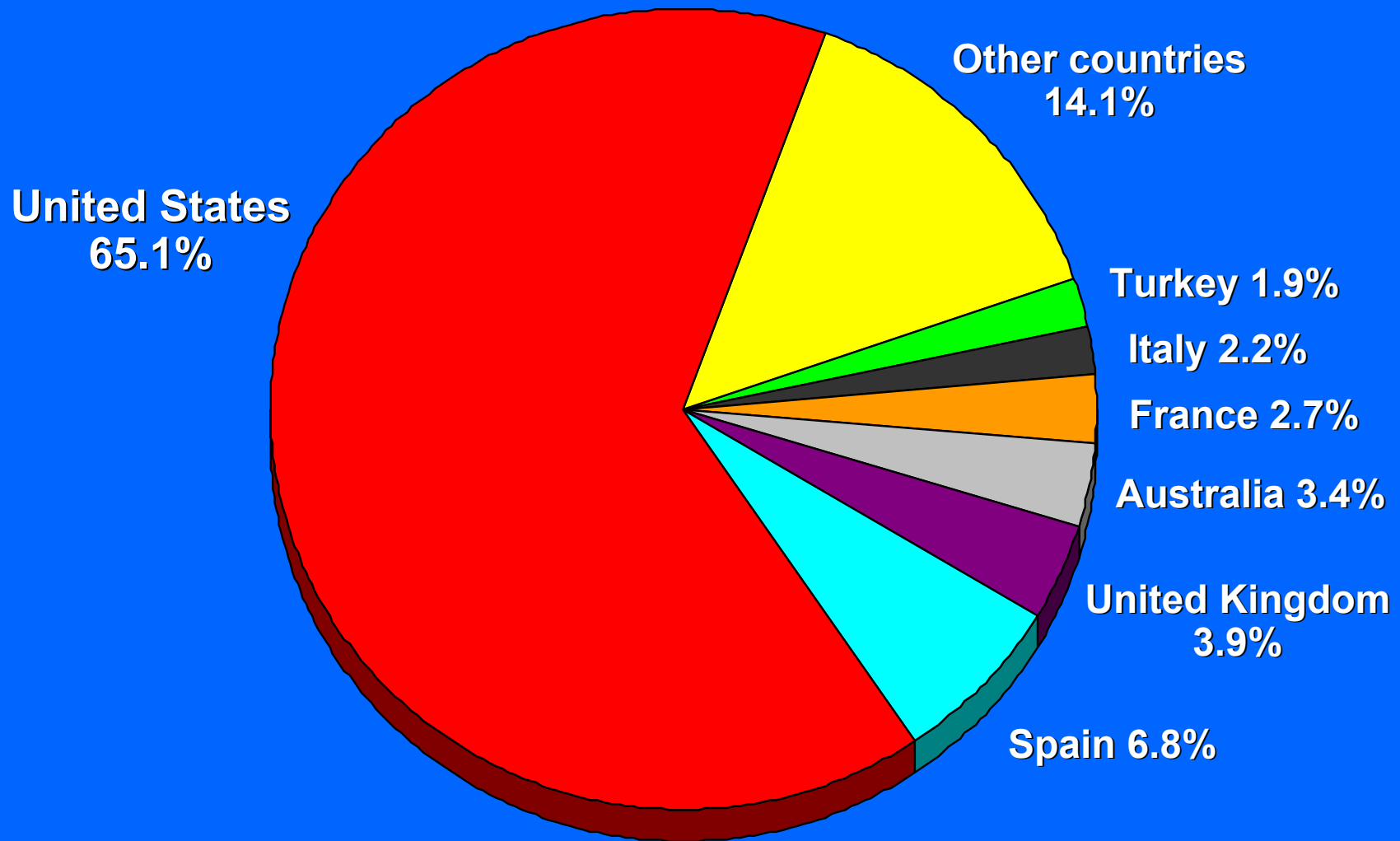
Has Increased More than FOUR TIMES
Under Bush Administration



Source: U.S. Treasury

Prepared by the Democratic Staff, Committee on Ways and Means, Charles B. Rangel, Ranking Member, 7/17/06

World's Biggest Borrowers



Note: Percent of world borrowing by country.
Source: IMF

Interest Payments on Debt Dwarf Other Priorities

